

Message Text

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SUBJECT: EC MONETARY COMMITTEE'S REPORT ON ITALIAN ECONOMIC
CONDITIONS

REF EC BRUSSELS 2066

1. SUMMARY. THE EC MONETARY COMMITTEE REPORT ON THE ITALIAN ECONOMY REPORTEDLY INDICATES THAT THE GOI HAS FALLEN FAR SHORT ON THE 1975 ECONOMIC POLICY CONDITIONS ESTABLISHED UNDER THE EC MEDIUM-TERM LOAN TO ITALY. THE COMMITTEE BELIEVES UNLESS IT TAKES DRASTIC MEASURES THE GOI WILL FAIL AGAIN TO MEET PRESCRIBED CONDITIONS THIS YEAR. WITHOUT SUCH MEASURES, ITALY IS LIKELY TO EXPERIENCE CONTINUED ECONOMIC DIFFICULTIES. END SUMMARY

2. THE EC MONETARY COMMITTEE ADOPTED A REPORT ON THE ITALIAN ECONOMY WHICH IT WILL SUBMIT TO THE EC FINANCE COUNCIL ON MARCH 15. EC COMMISSION OFFICIALS HAVE BRIEFED US ON THIS REPORT. THE MISSION REPORTED THE HIGHLIGHTS OF THE MONETARY COMMITTEE'S FEB 27 MEETING IN REFTEL. THE FOLLOWING DESCRIBES THE MONETARY COMMITTEE'S
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ASSESSMENT OF THE ITALIAN ECONOMY.

3. FAILURE TO MEET POLICY CONDITIONS: THE GOI EASED ITS RELATIVE RESTRICTIVE MONETARY POLICY IN MID-1975 WHICH CAUSED INTEREST RATES TO FALL AND MONEY SUPPLY TO EXPAND. AS A RESULT, SINCE OCTOBER 1975 CENTRAL BANK LENDING HAS BEEN RUNNING AHEAD OF AGREED UPON POLICY CONDITIONS. TOTAL LENDING WILL EXCEED THE CEILING BY 5 TRILLION LIRA FOR THE PERIOD OF APRIL 1975 TO MARCH 1976. TOTAL CENTRAL GOVERNMENT EXPENDITURES INCREASED BY 23 PERCENT DURING 1975, COMPARED TO THE CEILING OF 16 PERCENT. THE DEFICIT ON TREASURY TRANSACTIONS WILL EXCEED THE 8 TRILLION CEILING BY 5.4 TRILLION LIRA. THE CENTRAL BANK, HOWEVER, HAS REDUCED ITS SHARE OF FINANCING OF THE TREASURY DEFICIT FROM 75 PERCENT IN 1974 TO 40 PERCENT IN 1975.

4. 1976 ECONOMIC OUTLOOK: THE COMMITTEE ESTIMATES THAT THE GOI'S REAL GDP WILL GROW BY 1-2 PERCENT THIS YEAR, ASSUMING A 6 PERCENT GROWTH IN WORLD TRADE AND MAINTENANCE OF ITS SHARE OF EXPORTS. UNEMPLOYMENT, HOWEVER, WILL INCREASE. THE GDP PRICE DEFLATOR WILL RISE ABOUT 16 PERCENT. THE BALANCE OF PAYMENTS DEFICIT ON CURRENT ACCOUNT IS ESTIMATED AT \$1.2 BILLION. IN ADDITION, THE GOI MUST MAKE PAYMENTS ON OUTSTANDING FOREIGN DEBT AMOUNTING TO \$2.3 BILLION THIS YEAR.

5. 1976 POLICY CONDITIONS: RECENT GOI STIMULATIVE MEASURES HAVE HELPED THE ECONOMY TO TURN UPWARDS BUT THEY HAVE ALSO CAUSED A DETERIORATION IN THE BALANCE OF PAYMENTS AND A POSSIBLE ACCELERATION IN PRICE INFLATION. AS A RESULT, THE GOI MAY FALL SHORT OF ITS 1976 POLICY CONDITIONS. FOR EXAMPLE, THE GOI AGREED TO HOLD THE RATE OF INCREASE OF CENTRAL GOVERNMENT CURRENT EXPENDITURES TO NO MORE THAN 15 PERCENT IN 1976. THIS TARGET COULD BE EXCEEDED. THE GOI ALSO AGREED TO LIMIT CENTRAL BANK FINANCING OF THE DEFICIT ON TREASURY TRANSACTIONS TO 5.7 TRILLION LIRA. ITALIAN AUTHORITIES NOW INDICATE THAT THIS CEILING MAY ALSO BE EXCEEDED. ITALIAN OFFICIALS BELIEVE, HOWEVER, THAT THEY WILL BE ABLE TO REDUCE CENTRAL GOVERNMENT CASH EXPENDITURES FROM 46 TRILLION TO 40 TRILLION LIRA THIS YEAR. TOTAL CENTRAL GOVERNMENT EXPENDITURES WILL LIKELY INCREASE BY 25 PERCENT THIS YEAR, THE SAME GROWTH RATE AS LAST YEAR.

6. PROPOSED CONDITIONS: IN VIEW OF ITALY'S GROWING ECONOMIC LIMITED OFFICIAL USE

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DISEQUILIBRIUM, THE COMMITTEE RECOMMENDED THAT THIS YEAR'S ECONOMIC POLICY CONDITIONS BE REVISED, AS REPORTED IN REFTTEL. ITALIAN REPRESENTATIVES AT THE MEETING INDICATED THE GOI WOULD NOT TAKE MEASURES TO RESTRICT IMPORTS OR TO SUBSIDIZE EXPORTS. THE COMMITTEE TOOK NOTE OF THIS STATEMENT. HINTON

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